

**Health Benefits
Strategic Initiatives
2004 – 2009 Rate Years**

Health Benefits Strategic Initiatives: 2009 Rate Year

Introduction

This section summarizes the activities that Health Benefit staff participated in to support the strategic plan for the 2009 rate year:

- Extended Blue Shield contract one year
 - Extended Medco Health Solutions contract 18-months
 - Promoted disease management and wellness strategies
-

Blue Shield One-Year Extension

CalPERS extended the Blue Shield contract by one-year effective January 1, 2010. With the extension, CalPERS will achieve a calculated savings of \$19.9 million. The extension allowed CalPERS to strengthen Blue Shield's contract performance guarantees.

Medco 18-Month Extension

CalPERS extended its innovative contract with Medco Health Solutions, Inc. (Medco) by 18 months to manage pharmacy benefits for CalPERS PPO health plans – PERS Select, PERS Choice and PERSCare. During the current three-year contract, which includes benchmark targets and expires on June 30, 2009, CalPERS saved approximately \$30 million per year. Extending the Medco contract through December 31, 2010 gives CalPERS an opportunity to save an additional \$39.5 million over the next 12 months. The extension aligns the Medco contract end date with the end dates for other health plan contracts.

Disease Management and Wellness Strategies

In April 2008, Mercer presented the results of its report on the CalPERS Health and Disease Management Initiative to the Health Benefits Committee (HBC). The goal of this initiative is to identify a strategy that will enable CalPERS to provide a best-in-class health and disease management program to CalPERS members across all health plans.

The report provided a comprehensive evaluation of our current health plan programs against a best-in-class model and identified areas for plan improvements. Mercer defined a best-in-class model as having the following elements:

- Member-centric approach with superior member engagement through advocacy and coordination of care at its core;
 - Ability to engage and empower providers;
-

Continued on next page

Health Benefits Strategic Initiatives: 2009 Rate Year, Continued

Disease Management and Wellness Strategies (continued)

- Fully integrated suite of care management programs from wellness to chronic disease management;
- Seamless integration of data and predictive modeling; and,
- Proven results through rigorous reporting and Return on Investment (ROI).

Following the HBC meeting, Health Benefits Branch (HBB) staff carefully evaluated the Mercer recommendations. In addition, staff conducted discussions with each of the health plans about Mercer's findings.

At the June 2008 Health Benefits Committee meeting, HBB staff presented its analysis of Mercer's report and recommendations for future directions of the Health and Disease Management Initiative.

Based on staff recommendations, the CalPERS Board directed staff to:

- Implement a Comprehensive Performance Monitoring approach beginning in 2008
- Develop an action plan to expand program offerings to ensure consistency across all health plans beginning in 2009

To see Mercer's full report, go to: <http://www.calpers.ca.gov/eip-docs/about/board-cal-agenda/agendas/hbc/200806/item-5a-attach.pdf>.

Health Benefits Strategic Initiatives: 2008 Rate Year

Introduction

This section summarizes the activities that Health Benefits staff participated in to support the strategic plan for the 2008 rate year:

- High Performance Physician Networks
 - Health Care Investment Initiative
 - Blue Cross three-year contract
 - Health Management Initiative
 - Elimination of Blue Shield HMO in high cost rural counties
-

High Performance Physician Network

CalPERS partnered with Blue Shield and Blue Cross to develop HMO and PPO High Performance Physician Networks (HPNs) for 2008. Both networks feature higher-efficiency providers and premium savings while maintaining access and quality of care standards.

The Blue Shield HPN, Blue Shield NetValue HMO, includes 50 percent of the available Primary Care Physicians and 49 percent of Specialists and OB/GYN physicians. The Blue Cross HPN, PERS Select, includes 50 percent of the existing PPO network. CalPERS Blue Shield Basic members who transfer to the new Blue Shield HPN will see a decrease in their premiums: 1.3 percent less than 2007.

Healthcare Investment Initiative

CalPERS teamed up with HealthCare Evolution Partners (HEP), headed by Dr. David J. Brailer, former National Information Technology Coordinator, to launch the Healthcare Investment Initiative.

CalPERS committed up to \$700 million to the Health Care Investment Initiative. By focusing investments to specifically address the needs of health care purchasers and consumers, this innovative approach will enable us to invest more efficiently and, ideally, come up with new solutions to the health care crisis.

Some health marketplace issues the initiative will address include:

- mix of payers,
 - fragmentation of care,
 - lack of integration,
 - poor quality, and
 - high costs.
-

Continued on next page

Health Benefits Strategic Initiatives: 2008 Rate Year, Continued

Blue Cross Three-Year Contract

CalPERS awarded Blue Cross of California a three-year contract effective January 1, 2008, to administer its self-funded preferred provider organization (PPO) health plans. Blue Cross has administered CalPERS existing PPO plans, PERS Choice and PERSCare, since 1999.

The CalPERS Board made its decision following Blue Cross' commitment to innovative disease management programs, and increased transparency relative to provider costs and contract allowance amounts. Under the new contract, Blue Cross' administrative costs are less than half the national average.

Health and Disease Management Initiative

One of the CalPERS objectives in managing our health plans is to ensure the plans optimize care and provide members with effective health and disease management programs. These programs enable members with the most common chronic conditions to maximize their health. To realize this objective, Health Benefits staff will develop a standard health and disease management model across all of the plans that serve our population and establish a CalPERS identity for the overall program.

Staff will also work with a health consultant to develop a more detailed health and disease management framework that CalPERS can implement across our HMO and PPO plans over the next two years. Our long-term objective is to demonstrate that our members are receiving effective and consistent health and disease management, in a model that comes to be identified with CalPERS, regardless of a member's choice of health plan.

Elimination of Blue Shield HMO in high cost rural counties

Effective January 1, 2008, we will discontinue Blue Shield's HMO product in Lake, Napa, Plumas, and certain areas of El Dorado because the costs for care in those counties are unsustainable. Costs are about 78 percent higher in those counties than the CalPERS Blue Shield statewide average HMO costs.

Health Benefits Strategic Initiatives: 2007 Rate Year

Introduction

This section summarizes the activities that Health Benefits staff participated in to support the strategic plan for the 2007 rate year:

- Blue Shield Three-Year Contract
 - Health Management – Blue Shield Healthy Lifestyles
 - Address quality and high-cost issues in rural areas
 - Partnership for Change
-

Blue Shield Three-Year Contract

CalPERS re-negotiated a three-year contract with Blue Shield, effective January 1, 2007. The new contract identifies opportunities for health care delivery cost savings, and expands existing performance goals.

As part of this contract, Blue Shield instituted a variety of initiatives focusing on healthy lifestyles, disease management, and public agency retention and acquisition. Additionally, Blue Shield developed, staffs, and facilitates Regional Councils, and works with CalPERS constituencies and community leaders in rural counties to gain insight into health care trends and practices.

Health Management – Blue Shield Healthy Lifestyles

Under the new three-year contract, Blue Shield began offering adult members cash incentives of up to \$200 annually if they participate in the HMO's Healthy Lifestyle Rewards Program.

This on-line, interactive program is designed to help members adopt and maintain healthy lifestyle habits while providing valuable support along the way. Participating members will learn about healthy eating, exercising, managing stress and smoking cessation. Blue Shield is committing \$15 million over the next three years for the program.

Address quality and high-cost issues in rural areas

In an effort to address health care cost and quality issues in high-cost rural areas, Blue Shield successfully negotiated a contract with an individual practice association in San Luis Obispo County, replacing direct contracting with individual physicians with a capitated HMO model. Blue Shield also expanded HMO coverage to Humboldt County.

Continued on next page

Health Benefits Strategic Initiatives: 2007 Rate Year, Continued

Contracting Agency Recruitment and Retention

In 2006, CalPERS began a comprehensive contracting agency (CA) outreach effort. This effort included a review of the current practices for attracting and retaining public agencies to the CalPERS Health Benefits Program, while developing and designing alternative marketing plans.

Three marketing activities that are especially successful include:

- Rate seminars for our CAs
- Retention seminars for CAs considering exiting our program; and,
- An outreach assistance program where we placed over 950 phone calls to our CAs.

As of September 2007, staff have increased the number of contracting agency total covered lives by approximately 11,500.

Partnership for Change

The Board adopted the Partnership for Change in 2005 to promote value in hospital care and help moderate costs. The goal is to establish a transparent and well-functioning marketplace where hospitals compete for business on the basis of the quality and cost of services they deliver. There are two components of the Partnership for Change: the quality component – the California Hospital Assessment and Reporting Taskforce (CHART); and, the cost-efficiency component – the Hospital Value Initiative (HVI).

Researchers at the University of California, San Francisco (UCSF), with the support of the California HealthCare Foundation (CHCF), are leading the CHART initiative to collect and publicly report California hospital clinical quality and patient experience measures. CHART launched its website (www.CalHospitalCompare.org) in March of 2007.

The HVI began as a collaborative effort of CalPERS, the Pacific Business Group on Health (PBGH), the California Healthcare Coalition (CHCC), and five major health plans in California. Its purpose is to identify and recommend cost-efficiency metrics to be used in combination with CHART-designated quality measures to assist purchasers and consumers in making informed health care decision. The HVI working group continues to collaboratively develop cost and resource use measures.

Attachment 3, *Partnership for Change*, provides a more detailed description of CHART and HVI as well as a comprehensive update on their status and future plans.

Health Benefits Strategic Initiatives: 2006 Rate Year

Introduction	<p>This section summarizes the activities that Health Benefits staff participated in to support the strategic plan for the 2006 rate year:</p> <ul style="list-style-type: none">▪ Medco 3-Year Contract▪ Prior Authorization for PPO Members▪ Regional Councils▪ Centers of Expertise▪ Medicare Part D▪ Telemedicine▪ Improve Public Agency Marketing
Medco Three-Year Contract	<p>In an effort to make data and information to purchasers more transparent, CalPERS negotiated a three-year contract with Medco Health Solutions, Inc. to become the pharmacy benefit manager for our self-funded health plans PERSCare, PERS Choice, and, effective January 1, 2008, PERS Select. This contract, which began July 1, 2006, requires Medco to provide drugs of the highest quality and value, based on sound clinical findings. It also asks for unprecedented disclosure of what Medco receives in discounts and rebates from manufacturers. Additionally, it requires 100 percent pass-through to us of all manufacturers' rebates associated with the CalPERS account.</p>
Prior Authorization	<p>This initiative requires PPO members to obtain prior authorization for imaging procedures, such as CT Scans. Prior authorization promotes appropriate use of a high-cost benefit.</p>
Regional Councils	<p>The cost of health care in rural areas has been an ongoing challenge. In some rural counties, costs are nearly three times more than the CalPERS statewide average. To address these disparities, CalPERS partnered with Blue Shield to conduct Regional Council Meetings in certain rural counties to educate employers, members and other key stakeholders about the drivers of health care costs in those areas, and to identify ways to improve affordability of these counties. As of September 2007, Blue Shield conducted 21 Regional Council meetings covering 12 counties. These meetings led to the San Luis Obispo County capitated HMO model and the Humboldt County HMO expansion, which were implemented in 2007.</p>

Continued on next page

Health Benefits Strategic Initiatives: 2006 Rate Year, Continued

Centers of Expertise

CalPERS is committed to ensuring our members receive the highest quality of care in a facility that is most appropriate for their needs. That is why CalPERS plan partners expanded their Centers of Expertise (COE) programs. These programs require members to receive specified surgeries at hospitals that have the best performance records.

In 2005, Blue Shield, Kaiser Permanente, PERS Choice and PERSCare implemented COEs for organ and bone marrow transplants and non-emergency coronary artery bypass graft (CABG) surgeries. Kaiser also uses regional COEs for adult and pediatric cardiovascular surgery and neurosurgery; high-risk pre-natal care, inpatient rehabilitation, burns, and plastic surgery.

In 2006, Blue Shield, PERS Choice, and PERSCare implemented COEs for bariatric surgery procedures. In the future, CalPERS is looking at including additional COE procedures, such as joint replacements, certain cardiac procedures, and specialized cancer treatment.

Medicare Part D

Medicare Part D took effect January 1, 2006. Under Part D, Medicare beneficiaries are eligible for prescription drug coverage, and federal funding is available to encourage employers to continue providing high quality prescription drug coverage.

CalPERS successfully submitted Retiree Drug Subsidy applications for 2006, 2007, and 2008 on behalf of state and contracting agencies.

Telemedicine

CalPERS became the first employer health care purchaser in California to offer Telemedicine services as a benefit. Telemedicine is a health care delivery method that uses high-speed telecommunication systems, computer technology, and specialized medical cameras to examine, diagnose, treat, and educate patients.

Blue Cross deployed several strategies to make providers and members aware of the benefits of Telemedicine:

- Dedicated two Telemedicine Liaisons to contact local providers to build awareness around the offering.
 - Asked Benefits Administrators at county human resources agencies to ask if Blue Cross could participate in their employee health fairs. Blue Cross is also providing these groups with literature to educate their employees on where the telemedicine services are available and who they can contact.
-

Continued on next page

Health Benefits Strategic Initiatives: 2006 Rate Year, Continued

Telemedicine (continued)

- Produced and mailed a newsletter to members in June of 2007 and in July mailed a postcard to rural members to ensure that members are fully aware of the benefits of Telemedicine.
-

Improve Contracting Agency Marketing

In 2006, CalPERS began a comprehensive contracting agency (CA) outreach effort. This effort included a review of the current practices for attracting and retaining public agencies to the CalPERS Health Benefits Program, while developing and designing alternative marketing plans.

The campaign strategy focuses on a proactive and engaged employer customer service model, which includes the following activities:

- Improve customer service to existing agencies through personal account management including direct customer contact and site visits;
- Increase leverage of existing opportunities to market the CalPERS Health benefits Program through Health Fairs, the CalPERS Educational Forum, and local government conferences;
- Partner with the CalPERS Health Plans to develop and execute acquisition and retention strategies;
- Meet with public employers, labor organizations, associations and retiree groups throughout the state;
- Prepare CalPERS Health Benefits Program articles for various newsletters, including but not limited to, the *CalPERS Employer News* and *PERSpectives*.

As a result of this campaign, we increased our risk pool by 1,827 total covered lives in 2006-- the first net increase in several years.

Health Benefits Strategic Initiatives: 2005 Rate Year

Introduction

This section summarizes the activities that Health Benefits staff participated in to support the strategic plan for the 2005 rate year:

- Blue Shield Hospital Network
 - Regional Pricing for Contracting Agencies
 - Medicare Eligible Members
 - Pharmacy Management
 - Health Wallet Pilot
-

Blue Shield Hospital Network

In 2004, CalPERS and Blue Shield identified 38 high-cost hospitals throughout the state. Twenty-four of the hospitals did not meet our cost and quality criteria and the Board excluded them from the 2005 Blue Shield provider network. To view the list of hospitals excluded from the 2008 Blue Shield network, go to: <http://www.calpers.ca.gov>, click on *Member Information*, click on *Health Benefits Program*, and then click on *Health Plan Information*. Scroll down to *Hospitals Excluded from the 2008 Blue Shield CalPERS Provider Network*.

We estimate the 2005 Blue Shield CalPERS' provider network saved \$31 million in 2005 and as much as \$45 million in subsequent years.

Regional Pricing for Contracting Agencies

CalPERS implemented regional pricing in 2005 to retain contracting agencies and attract others. We apply the regional prices to the Basic Plan coverage for all contracting agencies. This varies the premium for contracting agencies to better reflect local area markets. Regional pricing for contracting agencies helped stabilize our risk pool.

Medicare-Eligible Members

During 2004-05, CalPERS staff transferred 6,000 Medicare-eligible Basic plan members from their Basic plans into Medicare plans. CalPERS saved \$18.5 million in health premiums from this Board-directed action.

Continued on next page

Health Benefits Strategic Initiatives: 2005 Rate Year, Continued

Pharmacy Management

CalPERS worked with health and drug representatives to implement several savings concepts for 2005, including: active promotion for over-the-counter drugs, specialty and biotech drug management, education and compliance programs for certain conditions, and mail service incentives for maintenance medication for the self-funded plans. We estimate that these initiatives saved \$42 million in 2005.

Health Wallet Pilot

In 2005, CalPERS launched the Health Wallet pilot. The Health Wallet is a handy wallet-size portable “databank” for members to use to help manage their health care at the doctor’s office, hospital, or pharmacy. It enables members to list emergency contact names and phone numbers, medical conditions, prescription drugs and much more.

The pilot was a success. As of September 2007, approximately 2,500 of the 25,000 wallets are still available.

Health Benefits Strategic Initiatives: 2004 Rate Year

Introduction

This section summarizes the activities that Health Benefits staff participated in to support the strategic plan for the 2004 rate year:

- Health Care Decision Support System
 - Health Plan Chooser
-

Health Care Decision Support System

On January 1, 2004, HPPS staff launched the Health Care Decision Support System (HCDSS). HCDSS enables the Health Benefits Branch to develop comprehensive utilization and cost information for all CalPERS plans. Program staff use the system to access demographic, geographic, diagnoses, pharmacy, and medical services data. The system contains three years of medical and pharmaceutical claims data, de-identified to protect the privacy of our members.

Going forward, HPPS staff will continue using HCDSS to manage rates and to identify joint opportunities with our contracting health plans in the areas of care management, quality care, and cost effective delivery of health care services.

Health Plan Chooser

In 2004, CalPERS launched the Health Plan Chooser. The Chooser is a web-based decision-making tool that helps members choose the “best-fit” health plan. The Chooser gives members all the information they need in one place—and it is easy to access and use. It allows members to rank health plans for cost, doctor availability, benefits, member satisfaction and plan features.

Effective August 2007, members are able to customize the plan features they see based on the topics and/or services that interest them. They can get information on what services the plans provide to:

- help them stay healthy (e.g., smoking cessation classes);
 - manage their chronic medical conditions (e.g., asthma); and,
 - save money (e.g., buying medication).
-